

# THE ISLAND TELEPHONE COMPANY LIMITED



**ANNUAL REPORT for 1975**

# 1975 Annual Report to the shareholders

## THE ISLAND TELEPHONE COMPANY LIMITED

Incorporated under the laws of the Province of Prince Edward Island

Head Office: 71 Belvedere Avenue, Charlottetown, Prince Edward Island, Canada C1A 1R5

Telephone (Area Code 902) 894-5501

### REGISTRAR AND STOCK TRANSFER OFFICES

#### Canada Permanent Trust Company

129 Kent Street, Charlottetown, P.E.I.

(Common shares, 4 $\frac{1}{2}$ % Preference Shares, 4 $\frac{3}{4}$ %

Preference Shares, 5 $\frac{1}{2}$ % Preference shares,

7 $\frac{1}{4}$ % Preference shares, and 9 $\frac{1}{4}$ % Preference

shares)

600 Dorchester Boulevard, West, Montreal 101, Quebec

(Common shares, 5 $\frac{1}{2}$ % Preference shares, 7 $\frac{1}{4}$ % Preference and

9 $\frac{1}{4}$ % Preference shares)

20 Eglinton Avenue, West, Toronto 1, Ontario

(Common shares, 7 $\frac{1}{4}$ % Preference shares and

9 $\frac{1}{4}$ % Preference shares)

315 Eighth Avenue, S.W., Calgary, Alberta

(9 $\frac{1}{4}$ % Preference shares)

701 West Georgia Street, Vancouver, B.C.

(5 $\frac{1}{2}$ % Preference shares)

1646 Barrington Street, Halifax, N.S.

(5 $\frac{1}{2}$ % Preference shares, 7 $\frac{1}{4}$ %

Preference shares, and 9 $\frac{1}{4}$ % Preference

shares)

### COMMON SHARES LISTED

Montreal Stock Exchange

Toronto Stock Exchange

### VALUATION DAY PRICES

(December 22, 1971)

Common Shares	— \$10.25
4 $\frac{1}{2}$ % Preference shares	— \$ 6.25
4 $\frac{3}{4}$ % Preference shares	— \$ 6.60
5 $\frac{1}{2}$ % Preferences shares	— \$15.25

### ANNUAL MEETING

The annual general meeting of the

shareholders of The Island Telephone

Company Limited will be held at

the Head Office of the Company

71 Belvedere Avenue, Charlottetown, P.E.I.,

Friday, May 28, 1976 at 12:00 o'clock noon.

This 1975 Annual Report is a summary of the operations of the Company in its service to the people of Prince Edward Island. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance and for our employees.

# from the president

The year 1975 presented major challenges. On the one hand, there was a continuing strong demand for more and better telecommunication services; and, on the other, there was the need to withstand the inroads made by extraordinary inflation pressures.

The demand for more telephone service was indeed met during the year 1975. There was an increase of 7.2% in the number of telephones in service, and despite the elimination of long distance charges between some exchanges as part of the modernization program, long distance calling increased by 8.3%. Also, during 1975, there was continuing progress made in the service improvement program scheduled for completion in 1977. Telephone service in ten communities was modernized with the provision of automatic dial service, Direct Distance Dialing, and the elimination of long distance charges to neighbouring exchanges. Overall, the 1975 construction program to meet both the growth and improvement in telecommunications service totalled \$7.3 million.

Of particular note during 1975 was the completion of the largest single project ever undertaken by your Company when the new \$4.5 million Stored Program Electronic Long Distance Central Office was placed in service in Charlottetown. This is the most modern equipment available in the world for processing long distance calls. Its performance has been fully satisfactory and it has the potential capacity to meet the ever increasing volumes of long distance calling in Prince Edward Island for years to come.

With the implementation of approved rate changes at the beginning of the year, the Company's earnings improved in 1975. In 1974, rapid inflationary trends in operating costs reduced the level of earnings to 82 cents a share, a marked reversal of the trend established in 1972 and 1973 with earnings of \$1.26 and \$1.34 respectively. In 1975, earnings per average common share rose to \$1.40, and this represented a rate of return on average invested capital of 9.4% and on average common equity of 12.4%.

In this, my first report to you as President of the Company, I am pleased to indicate that the Company will continue its efforts to provide an effective and efficient level of telephone service that will meet the needs of the telephone subscribers of Prince Edward Island and that will provide a satisfactory level of earnings.



A handwritten signature in black ink, appearing to read "S. H. Deva". The signature is fluid and cursive, with a large, stylized 'S' and 'H'.

President

April 26, 1976



W. C. Auld  
Executive Vice-President



E. J. Hicks  
Vice-President (Finance)



D. R. Livingstone  
General Manager

# Growth rate is among nation's highest

The rate of gain in telephones for the year, at 7.2%, was among the highest for Canadian telephone companies; and this gain, plus significant growth in calling volumes and major steps forward in the broad service improvement program, made 1975 a year of accomplishments.

## GROWTH IN SERVICE

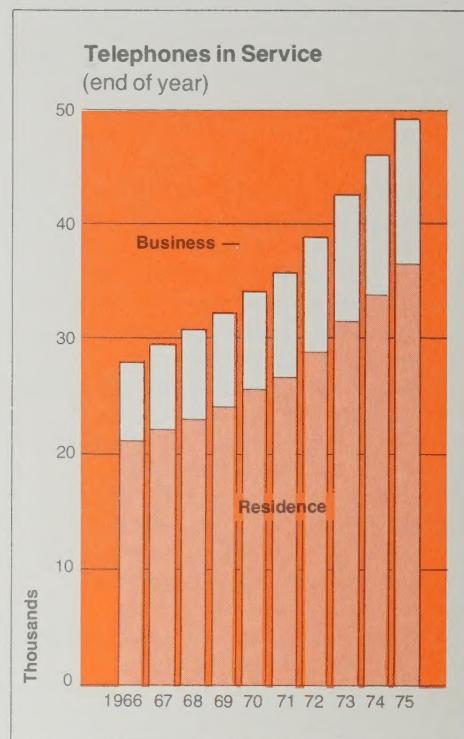
- the net gain in telephones for the year 1975 was 3,290, and by the end of 1975 there were 49,156 telephones in service, compared to 27,900 ten years ago.
- the number of telephones per 100 persons in the Province rose to approximately 45 compared to 26 a decade ago. The national average is just over 55 and this is an indication of the potential growth on Prince Edward Island.
- the number of residences with telephones rose to 96 per 100, an increase from 72 ten years ago.
- more than 60% of residence customers now have single line service, compared to 42% ten years ago.
- overall, the percent of dial telephones rose to more than 91, resulting in a total of 44,834 telephones with dial service.

## GROWTH IN CALLING

- apart from long distance calls, there were more than 104 million local calls handled in 1975.
- the volume of long distance calls rose 8.4% to 3,745,000, an average of just over 10,000 daily, despite the elimination of several hundred thousand short haul long distance calls as part of the on-going program of providing Extended Area Service (EAS) calling between adjacent communities.
- with provision of Direct Distance Dialing to eight exchanges (see below), DDD capability rose to more than 91% of all Island telephones; a year ago this stood at 74%.

## SERVICE IMPROVEMENT PROGRAM

During 1975 the company's program of accelerated growth, further expansion, and modernization continued. During 1975, progress was made in the modernization program scheduled for completion in 1977. The assumption of all remaining rural connecting company service obligations was completed in 1974 and work continued in the other five major areas of service improvement:



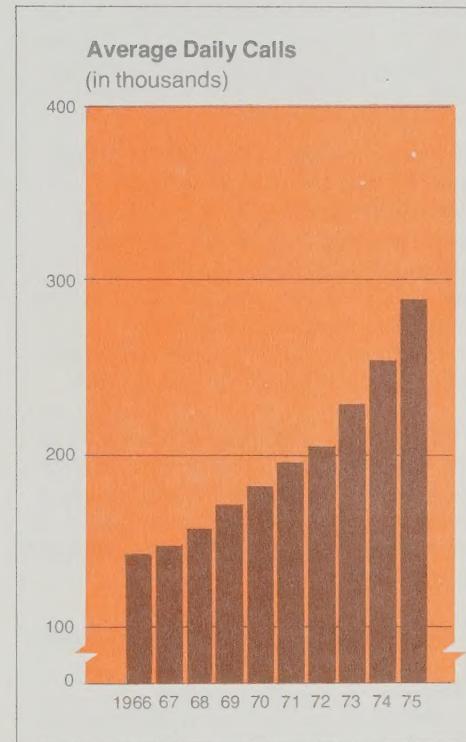
- the goal of all-dial service was advanced, with the conversion to dial of 1,872 telephones in the exchanges of Murray River and Wellington.
- all dial telephones in the Province now have Direct Distance Dialing



Central office technician Hector MacDougall uses modern computer terminal to check circuitry at main switching centre at Charlottetown.

(DDD), and in addition to Murray River and Wellington, DDD was provided in 1975 to Bedeque, Borden, Kensington, Alberton, O'Leary and Tignish. A total of 8,666 telephones were added to the DDD network.

- four communities were provided with Extended Area Service (EAS) in 1975, by which long distance charges to adjacent exchanges were eliminated. EAS was provided between Murray River and Montague, and between Wellington and Summerside. Nearly 12,000 customers in both pairs of communities benefited from the new service.
- rural customers sharing party lines had their service improved with the placing in service of more than 7,500 miles of copper circuit — both aerial and underground — and the reduction of customers per party line from an average of 5.5 to 5.0. At year end, nearly 81% of all multi-party lines had six or fewer customers per line.
- in two exchanges — Murray River and New Haven — "base rate" areas were enlarged. This meant that the central areas of the exchanges, where no monthly mileage charges are paid for one party service, were broadened as these communities grew. All told, 319 additional homes and businesses in the two areas were included in the base rate area — and hundreds more beyond the enlarged area had monthly mileage charges for one party service proportionately reduced.



# **Long distance calling centralized, improved with "stored program" electronics**

Overall construction expenditures to provide for growth and modernization of telephone service were over \$7.3 million in 1975.

The construction program included \$3.3 million to expand network facilities including long distance facilities, and to provide for a net increase of 3,290 telephones in service. This required the connection and disconnection of 22,640 telephones — or nearly seven orders worked for each telephone gained.

The remaining \$4 million provided for the provision of new equipment and facilities as part of the Company's modernization program, and for replacement of worn out and obsolete equipment.

## **EXPANSION AND MODERNIZATION**

The largest single project ever undertaken by the Company was the installation of the Stored Program (or SP-1) electronic long distance switching machine at Charlottetown, completed in October, 1975.

This \$4.5 million project included the centralization in Charlottetown of all long distance operations in the Province with a resulting expansion in Direct Distance Dialing capacity, improved calling capability and efficiency, and an improvement in transmission service for the people in Prince Edward Island.

During 1975, the Murray River and Wellington dial conversions were completed, and new dial office buildings were erected at Crapaud, New London and Morell as plans proceeded for dial service for these areas in 1976.

Other major construction projects included \$1.4 million to provide additional aerial and underground cable; and \$2 million to provide additional central office equipment in offices in Charlottetown, Summerside, Alberton, O'Leary, Kensington, Borden, Souris and Montague.

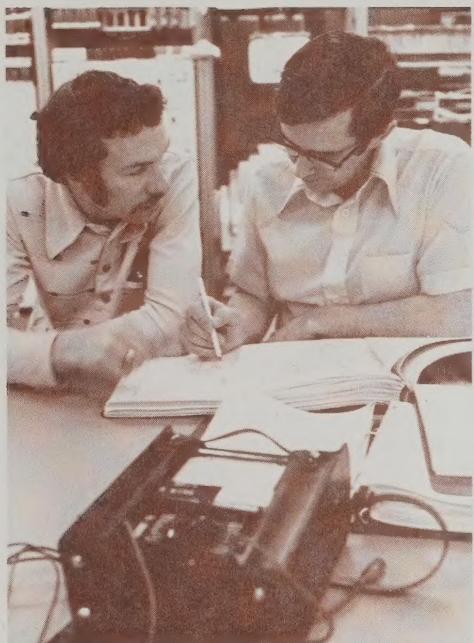
The volume of long distance calling continued to increase and the number of messages increased by 288,277, or 8.4% over 1974. In 1975, the total number of circuits required for



Operator Linda O'Connor has skills to handle a variety of calls including important late-night ship-to-shore communications.



Engineer Ralph Woodside of Company's design group checks plans in front of twin Hazelgrove towers, 20 miles west of Charlottetown.



Job administrator and equipment engineer Donald Spence, left, and Leo MacDonald, central office technician checking installation details for new electronic "SP-1" long distance switching machine at Charlottetown.

Central office technician Barry Martin uses an oscilloscope to check circuitry during installation of new SP-1 electronic switching centre for centralized long distance service out of Charlottetown.



inter-exchange calling increased to 666, of which 135 were for out-of-province calling.

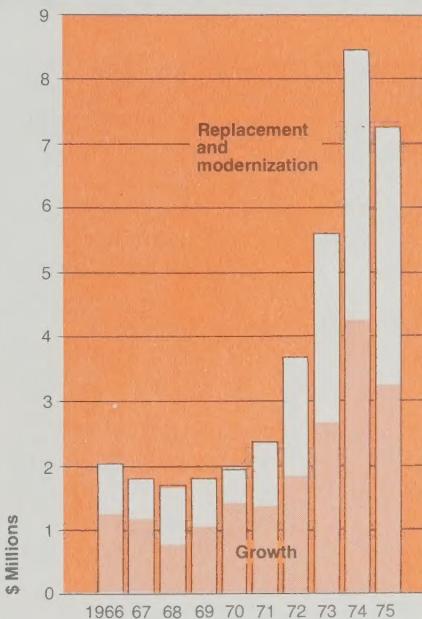
At both Summerside and Charlottetown, a new radio "pocket paging" system was introduced. This service uses devices somewhat smaller than a hand held calculator and is provided to persons who are required to be away from their office. With this equipment they can be "paged" by dialing individually-assigned numbers.

#### FUTURE PROJECTS

Present estimates indicate that construction program expenditures for 1976, to meet demand for communications service, will be approximately \$7.3 million, the same as the 1975 level.

The forecasted growth in service requirements for 1976 is 3,200 additional telephones, bringing the total number of telephones in service past the 52,000 mark. As well, planned service improvements include conversion to dial of the telephones in Crapaud, New London, Morell and St.

#### Construction Program Expenditures



Peters exchanges. Associated with the new dial service in these exchanges, Direct Distance Dialing will be provided for an additional 1,900 telephones during 1976, and DDD service will approach 95% of the total telephones in the province. In Charlottetown the base rate area will be enlarged to include East Royalty, Kinlock and Crossroads. Associated with this, a new \$1 million dial central office will be constructed to house the latest in modern electronic switching machines designed to meet the growth in service east and south of the Hillsboro River in the Charlottetown Exchange.

# **Greater calling volumes are handled as network grows, project deadlines are met**

The total number of company employees at year end was 279. Salaries and wages were \$2,909,500, an increase of 22% over the year before. In addition, \$433,890, representing approximately a further 14.8% of payroll, was dispersed as follows:

- \$291,882 in payments by the Company for the non-contributory pension plan.
- \$70,786 in payments for sickness, accident and group insurance and supplementary hospital insurance.
- \$34,846 in payments to the Canada Pension Plan.
- \$36,846 in payments to unemployment insurance.

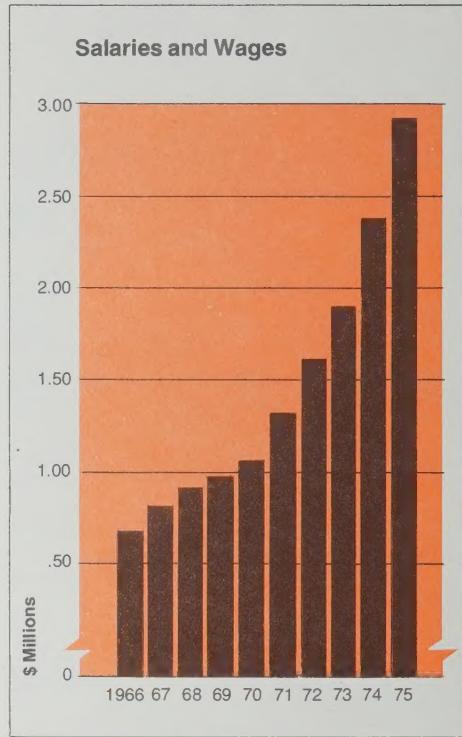
**Twenty-nine percent of your Company's employees participated in the savings program provided through the Employees' Stock Savings Plan.**

A variety of Company training courses were provided during the year, and craft employees, operators and supervisors participated. As well, a number of employees continued university-level courses on their own time, with a part of the costs being paid by the Company under the tuition plan for employees.

While employees worked to improve service levels, the major cutover of the new SP-1 toll switching machine, as well as the dial conversions and related improvements, such as DDD, EAS and base rate enlargements, required a measure of extra employee effort and deadlines had to be met. The resulting benefit of their efforts was improved service to thousands of customers.

Much of this work was completed despite the hazards of weather, and the additional work resulting from Hurricane Blanche on July 28th. Company staff worked around the clock following this storm, as dozens of broken poles and wires were removed, replaced or repaired as required in order to restore normal service.

Service adviser Murilla Cudmore takes a desk-top perch the better to aid in detailed instruction in customer premises on complexities and advantages of new PBX installation.



# summing up

## DIRECTORS

Donald W. Myers, a Director of the Company since 1966, retired from the Board of Directors effective April 1. He was succeeded by Edward J. Hicks.

## ORGANIZATION CHANGES

At the Annual Meeting held on May 28, 1975, a number of senior management changes took place:

A. Gordon Archibald, President of the Company since September, 1963, became Chairman of the Board.

Ivan E. H. Duvar, Assistant to the President since 1974, was appointed President.

Walter C. Auld, Vice-President since 1974, was appointed Executive Vice-President.

Edward J. Hicks was appointed Vice-President (Finance).

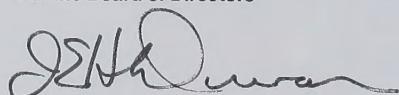
On April 1, 1975, Donald B. Quinn was appointed Secretary Treasurer succeeding Mr. Hicks.

To sum up, the year 1975 was a busy and demanding one. The success of your Company, in 1975, was in a large measure attributable to the efforts of its employees, in all departments. Their work and dedication contributed to the progress achieved.

Shareholders, and citizens of Prince Edward Island, can be proud of the manner in which employees of the Company are providing a high grade of dependable telecommunication service so necessary for modern day life.

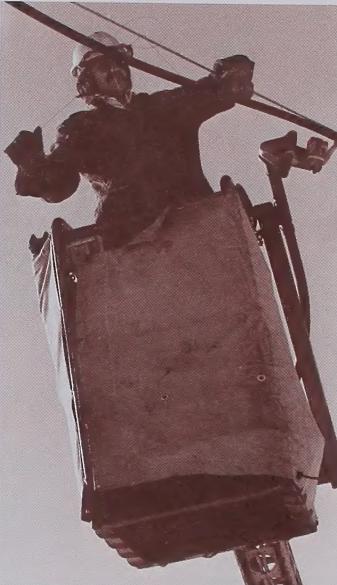
Looking ahead into 1976, there will be as many, or perhaps more, challenges as in the past. The Company will continue its efforts to meet customer requirements and further progress is planned in the modernization program. The Company will require additional capital to meet these requirements and, in the present environment of inflationary cost increases, a major priority will be placed on the continued financial health of the Company.

For the Board of Directors



President

Charlottetown, P.E.I.  
April 26, 1976



Lineman Russell Moore "lashes up" cable at Bedeque following severe wind and rain storm.

## THE FINANCIAL REPORT

### *In brief*

	1975	1974
Construction program expenditures (thousands)	\$ 7,298	\$ 8,423
Telephone plant per telephone, December 31	\$ 807	\$ 765
Telephones in service, December 31	49,156	45,866
Earnings per common share	\$ 1.40	\$ .82
Dividends per common share	\$ .74	\$ .65
Average common shares	562,878	554,315
Return on average invested capital	9.5%	7.8%
Return on average common equity	12.4%	7.2%
Equity per common share, December 31	\$ 11.66	\$ 11.10
Long-term debt % total invested capital, December 31	60.3%	53.0%
Employees, December 31	279	297
Salaries and Wages (thousands)	\$ 2,910	\$ 2,382

### *In statements*

**INCOME STATEMENT**  
For the Year Ended December 31

	1975	1974
	\$	\$
<b>OPERATING REVENUES</b>		
Local service	4,858,100	3,846,900
Long distance service	4,727,900	3,659,000
Other	235,400	178,300
Uncollectible	45,700	36,600
	<u>9,775,700</u>	<u>7,647,600</u>
<b>OPERATING EXPENSES</b>		
Maintenance	1,696,700	1,406,300
Depreciation (Note 1(a))	2,075,400	1,760,100
Traffic	1,234,400	1,010,900
Commercial & marketing	426,700	336,800
Administrative	355,400	339,600
Pensions and other employee benefits	311,400	211,000
Other	222,700	173,900
Taxes other than income taxes	174,200	146,500
	<u>6,496,900</u>	<u>5,385,100</u>
<b>OTHER INCOME (Note 2)</b>	<u>3,278,800</u>	<u>2,262,500</u>
	<u>235,000</u>	<u>86,600</u>
	<u>3,513,800</u>	<u>2,349,100</u>
<b>INTEREST</b>		
Bond interest	1,149,000	780,000
Other (Note 3)	314,300	147,000
	<u>1,463,300</u>	<u>927,000</u>
<b>INCOME TAXES</b>	<u>2,050,500</u>	<u>1,422,100</u>
	<u>887,700</u>	<u>683,500</u>
<b>NET INCOME FOR YEAR</b>	<u>1,162,800</u>	<u>738,600</u>
Earnings per common share	<u>1.40</u>	<u>.82</u>

D. S. Inkpen,  
Comptroller

**The Island Telephone Company Limited**  
**FINANCIAL POSITION STATEMENT**  
As at December 31

	ASSETS		LIABILITIES AND SHAREHOLDERS' EQUITY	
	1975	1974	1975	1974
<b>TELEPHONE PLANT (Note 1(a))</b>				
Depreciable telephone plant in service	38,409,100	31,197,100		
Other telephone plant (Note 4)	890,700	3,516,600		
	<u>39,299,800</u>	<u>34,713,700</u>		
Less accumulated depreciation	7,556,400	7,183,200		
	<u>31,743,400</u>	<u>27,530,500</u>		
Materials inventory	376,300	367,700		
	<u>32,119,700</u>	<u>27,898,200</u>		
<b>INVESTMENTS (Note 5)</b>	<u>72,600</u>	<u>72,100</u>		
<b>CURRENT ASSETS</b>				
Cash	311,000	—		
Accounts receivable	1,579,300	1,053,800		
Income taxes receivable	—	216,700		
Prepayments	83,100	74,900		
	<u>1,973,400</u>	<u>1,345,400</u>		
<b>DEFERRED CHARGES</b>				
Unamortized long-term debt expenses	173,500	138,200		
Other deferred charges	110,600	75,600		
	<u>284,100</u>	<u>213,800</u>		
	<u>34,449,800</u>	<u>29,529,500</u>		
<b>SHAREHOLDERS' EQUITY</b>				
Common stock (Note 6)	2,857,600	2,810,500		
Premium on common stock (Note 7)	1,004,200	1,000,700		
Retained earnings	2,804,800	2,429,800		
	<u>6,666,600</u>	<u>6,241,000</u>		
Preference stock (Note 6)	5,050,000	5,050,000		
	<u>11,716,600</u>	<u>11,291,000</u>		
<b>LONG-TERM DEBT (Note 8)</b>				
First mortgage bonds	13,250,000	9,750,000		
Bank and other notes	4,540,000	2,973,000		
	<u>17,790,000</u>	<u>12,723,000</u>		
<b>CURRENT LIABILITIES</b>				
Bank indebtedness	—	9,300		
Due to Maritime Telegraph & Telephone Company, Limited	37,700	192,100		
Accounts payable	723,600	2,054,600		
Income taxes accrued	193,400	—		
Interest accrued	245,800	69,300		
Other current liabilities	269,800	213,300		
	<u>1,470,300</u>	<u>2,538,600</u>		
<b>DEFERRED CREDITS</b>				
Income taxes (Note 1(b))	3,458,400	2,971,400		
Other deferred credits (Note 9)	14,500	5,500		
	<u>3,472,900</u>	<u>2,976,900</u>		
	<u>34,449,800</u>	<u>29,529,500</u>		

On behalf of the Board: I. E. H. Duvar  
Director A. G. Archibald  
Director

The accompanying notes form an integral part of these financial statements

## RETAINED EARNINGS STATEMENT

For the Year Ended December 31

	1975	1974
	\$	\$
<b>RETAINED EARNINGS,</b>		
beginning of year	<b>2,429,800</b>	2,413,700
<b>ADDITIONS:</b>		
Net income for year	<b>1,162,800</b>	738,600
<b>DEDUCTIONS:</b>		
Preference dividends	372,000	286,000
Common dividends	<b>415,200</b>	360,300
Commission and expenses of issuing preference stock	—	75,900
Other	600	300
	<b>787,800</b>	722,500
<b>RETAINED EARNINGS,</b>		
end of year	<b>2,804,800</b>	2,429,800

## AUDITORS' REPORT

To the Shareholders of  
The Island Telephone Company Limited:

We have examined the financial position statement of The Island Telephone Company Limited as at December 31, 1975, and the income, retained earnings and changes in financial position statements for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1975, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

**Clarkson, Gordon & Co.**  
Chartered Accountants

Halifax, Canada  
January 26, 1976

## STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31

	1975	1974
	\$	\$
<b>SOURCE OF FUNDS:</b>		
<b>Internal —</b>		
Operating revenues and other income	10,010,700	7,734,200
Less charges requiring working capital (Note 10)	<b>6,573,700</b>	4,790,000
Total Internal — from operations	<b>3,437,000</b>	2,944,200
<b>External —</b>		
First mortgage bonds	3,500,000	—
9.25% preference stock	—	2,000,000
Bank and other notes	<b>4,540,000</b>	2,973,000
Employees' stock savings plan (Note 9)	50,900	45,500
Decrease in working capital	—	1,196,500
Total external	<b>8,090,900</b>	6,215,000
Total source of funds	<b>11,527,900</b>	9,159,200
<b>APPLICATION OF FUNDS:</b>		
Repayment of bank and other notes	2,973,000	480,000
Dividends	787,200	646,300
Other	62,800	94,600
Increase in materials inventory	8,600	100,400
Increase in working capital	<b>1,696,300</b>	—
Total application of funds (other than construction)	<b>5,527,900</b>	1,321,300
Total funds provided for construction	<b>6,000,000</b>	7,837,900
<b>FUNDS USED FOR CONSTRUCTION:</b>		
New telephone plant added	7,171,100	8,333,800
Cost of removing old plant	127,300	89,300
Construction program expenditures	<b>7,298,400</b>	8,423,100
Less charges not requiring working capital		
— Interest, pensions and expenses credited to income	330,700	161,100
— Salvage	944,800	404,200
— Other	22,900	19,900
	<b>1,298,400</b>	585,200
Total funds used for construction	<b>6,000,000</b>	7,837,900

## NOTES TO FINANCIAL STATEMENTS

### (1) Summary of significant accounting policies —

#### (a) Accounting for telephone plant:

Telephone plant is carried at cost.

Depreciation is charged on a straight-line basis using component rates for classes of plant, determined by a continuing program of engineering studies, as approved by the Public Utilities Commission of the Province of Prince Edward Island. These rates provide for depreciating the assets over their estimated useful service lives and resulted in a composite rate for 1975 of 6.1% (1974, 6.3%).

Materials inventory consists of items which will be used in the construction program.

#### (b) Income taxes:

Deferred tax accounting has been followed with respect to all timing differences.

### (2) Other income — includes interest charged construction of \$229,800 (1974, \$89,700) less other income charges.

### (3) Other interest — includes interest on bank and other notes of \$299,600 (1974, \$135,200) and amortization of long-term debt expenses amounting to \$10,700 (1974, \$8,600).

### (4) Other telephone plant — land and telephone plant under construction.

### (5) Investments — principally in Telesat Canada. Total investment in these shares is \$60,000.

### (6) Capital stock —

	1975	1974
Authorized	<u>\$10,000,000</u>	<u>\$10,000,000</u>
Shares	Shares	
Issued:		
Common — par value \$5.00		
Beginning of year	<u>562,092</u>	553,608
Issued during year for cash		
(1975 — \$50,600;		
1974 — \$45,600)	<u>9,426</u>	8,484
End of year	<u>571,518</u>	<u>562,092</u>
Preference — cumulative redeemable		
4½% — par value \$10.00	<u>40,000</u>	40,000
4¾% — par value \$10.00	<u>40,000</u>	40,000
5½% — par value \$20.00	<u>37,500</u>	37,500
7¼% — par value \$20.00	<u>75,000</u>	75,000
9¼% — par value \$20.00	<u>100,000</u>	100,000
	<u>292,500</u>	<u>292,500</u>
Value, at par, of issued common and preference shares	<u>\$7,907,600</u>	<u>\$ 7,860,500</u>

### (7) Premium on common stock —

	1975	1974
Beginning of year	<u>\$1,000,700</u>	\$ 997,500
On shares issued during year	<u>3,500</u>	3,200
End of year	<u>\$1,004,200</u>	<u>\$1,000,700</u>

### (8) Long-term debt —

(a) First mortgage bonds —	Series	Rate	Maturing	Principal
	D	5½%	May 1, 1978	\$ 500,000
	E	5½%	October 2, 1981	500,000
	F	5½%	June 15, 1983	750,000
	G	7¾%	February 1, 1988	1,000,000
	H	8 %	December 15, 1991	3,000,000
	I	9¼%	December 15, 1993	4,000,000
	J*	11 %	January 15, 1995	3,500,000
				<u>\$13,250,000</u>

\*The holders of Series J Bonds have the right to require the Island Telephone Company Limited to repay the principal amount at par on January 15, 1985.

(b)	Bank and other notes —	
	Bank demand loans at prime rate	<u>\$4,540,000</u>

In order to permit the Company to time its new issues of debt or capital stock most advantageously the Company maintains a substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason the Company does not classify these items as current liabilities.

Likewise, the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

(9) **Other deferred credits** — includes employees' stock savings plan as follows:

	1975	1974
Beginning of year	\$ 200	\$ 300
Add contributions, including interest	<u>50,900</u>	<u>45,500</u>
	<u>51,100</u>	<u>45,800</u>
Less common stock issued to employees under the plan	<u>50,600</u>	<u>45,600</u>
End of year	<u>\$ 500</u>	<u>\$ 200</u>

(10) **Charges requiring working capital** —

	1975	1974
Operating expenses, interest and taxes	<u>\$8,847,900</u>	<u>\$6,995,600</u>
Less charges not requiring working capital — Depreciation	<u>2,075,400</u>	<u>1,760,100</u>
— Deferred income taxes	<u>487,000</u>	<u>569,600</u>
— Other	<u>42,500</u>	<u>37,000</u>
	<u>2,604,900</u>	<u>2,366,700</u>
	<u>6,243,000</u>	<u>4,628,900</u>
Add credits not producing working capital — Interest, pensions and expenses charged to construction	<u>330,700</u>	<u>161,100</u>
	<u>\$6,573,700</u>	<u>\$4,790,000</u>

(11) **Pension Fund** —

Pension fund obligations are accounted for and paid over the estimated future working lifetime of employees of the Company. The contribution to the pension fund for the year ended December 31, 1975 amounted to \$291,900 (1974, \$182,800). Based on earnings and service to December 31, 1975, actuarial reviews show that all vested benefits are fully funded.

(12) **Comparative figures** —

Certain of the 1974 figures have been restated so as to conform the presentation with that followed in 1975.

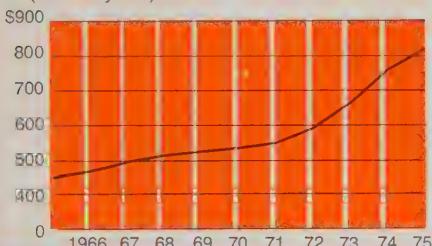
## THE YEARS IN REVIEW

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
<b>Financial Position at Dec. 31 (in thousands)</b>										
Telephone plant	\$ 39,676	\$ 35,081	\$ 27,753	\$ 23,026	\$ 19,947	\$ 18,163	\$ 16,888	\$ 15,634	\$ 14,612	\$ 13,155
Accumulated depreciation	7,556	7,183	6,157	5,458	5,063	4,606	4,198	3,817	3,517	3,089
Investments	73	72	72	72	1,562	106	83	31	12	212
Current assets	1,973	1,346	1,006	755	614	553	514	619	370	399
Deferred charges	284	214	194	67	105	37	38	41	78	57
Shareholders' equity	11,717	11,291	9,229	8,778	6,942	6,571	6,481	6,347	6,266	6,153
Long term debt	17,790	12,723	10,230	7,125	8,000	5,906	5,210	4,620	3,931	3,250
Current liabilities	1,470	2,539	1,003	746	647	422	390	447	336	423
Deferred credits	3,473	2,977	2,406	1,813	1,576	1,354	1,244	1,094	1,022	908
<b>Income (in thousands)</b>										
Operating revenues	\$ 9,776	\$ 7,648	\$ 6,548	\$ 5,440	\$ 4,784	\$ 3,903	\$ 3,589	\$ 3,274	\$ 2,967	\$ 2,770
Operating expenses	6,497	5,385	4,253	3,494	3,013	2,690	2,385	2,204	2,004	1,791
Other income	235	87	70	24	15	9	10	11	7	3
Interest	1,463	927	615	495	432	401	313	259	175	196
Income taxes	888	684	829	672	654	409	451	410	389	382
Net income for year	1,163	739	921	803	700	412	450	412	406	404
<b>Statistics — at December 31</b>										
Telephone plant per telephone	\$ 807	\$ 765	\$ 656	\$ 593	\$ 559	\$ 534	\$ 523	\$ 510	\$ 496	\$ 472
Equity per common share	\$ 11.66	\$ 11.10	\$ 11.16	\$ 10.48	\$ 9.95	\$ 9.35	\$ 9.27	\$ 9.09	\$ 9.02	\$ 8.92
Embedded debt cost	8.9%	8.1%	8.1%	6.8%	7.4%	7.1%	5.9%	5.9%	5.1%	5.1%
Long term debt % total invested capital	60.3%	53.0%	52.6%	44.8%	53.5%	47.3%	44.6%	42.1%	38.2%	34.6%
Employees	279	297	258	259	225	221	198	197	206	198
Telephones in service	49,156	45,866	42,314	38,841	35,715	33,999	32,314	30,683	29,465	27,900
Dial telephones	91.2%	87.4%	83.5%	78.7%	76.7%	73.9%	74.1%	72.1%	67.0%	67.1%
Shareholders	2,626	2,615	2,192	2,160	1,791	1,788	1,812	1,838	1,849	1,797
<b>Statistics — for year</b>										
Earnings per common share	\$ 1.40	\$ .82	\$ 1.34	\$ 1.26	\$ 1.15	\$ .63	\$ .70	\$ .64	\$ .63	\$ .86
Average common shares	562,878	554,315	549,281	544,636	540,084	535,216	530,432	525,706	520,080	398,466
Dividends per common share	\$ .74	\$ .65	\$ .62	\$ .60	\$ .51	\$ .50	\$ .50	\$ .50	\$ .50	\$ .46
Times bond interest earned—before taxes	3.1	3.0	5.3	4.2	5.0	3.7	5.5	5.0	6.0	6.1
Times bond interest earned—after taxes	2.3	2.1	3.4	2.7	3.1	2.4	3.5	3.1	3.6	3.7
Return on average invested capital	9.5%	7.8%	8.8%	8.8%	8.7%	6.7%	6.7%	6.3%	6.0%	7.1%
Return on rate base	8.2%	6.7%	7.7%	8.0%	7.8%	6.1%	6.1%	5.8%	5.5%	6.4%
Return on average common equity	12.4%	7.2%	12.3%	12.3%	12.0%	6.7%	7.6%	7.0%	7.0%	9.7%
Construction program expenditures (in thousands)	\$ 7,298	\$ 8,423	\$ 5,648	\$ 3,702	\$ 2,429	\$ 1,951	\$ 1,835	\$ 1,715	\$ 1,835	\$ 2,037
Salaries and wages (in thousands)	\$ 2,910	\$ 2,382	\$ 1,919	\$ 1,606	\$ 1,324	\$ 1,096	\$ 995	\$ 911	\$ 825	\$ 737
Average daily calls (in thousands)	286	252	228	204	188	183	165	157	145	141
Average daily toll messages (in thousands)	10	9	9	8	7	6	6	5	5	5

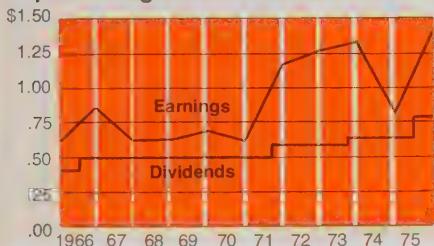
# THE ISLAND TELEPHONE COMPANY LIMITED

## DIRECTORS

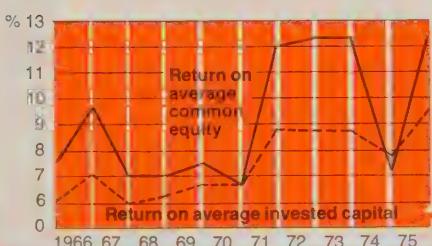
Telephone Plant Per Telephone  
(end of year)



Earnings and Dividends  
per Average Common Share



Rates Of Return on Average Common  
Equity & Average Invested Capital



### \*A. Gordon Archibald

Chairman of the Board  
The Island Telephone Company Limited  
Charlottetown, P.E.I.

### \*Walter C. Auld

Executive Vice-President  
The Island Telephone Company Limited  
Charlottetown, P.E.I.

### \*Ivan E. H. Duvar

President  
The Island Telephone Company Limited  
Charlottetown, P.E.I.

### Charles J. Fraser

President  
Montague Drive-In Theatre Ltd.  
Montague, P.E.I.

### \*Edward J. Hicks

Vice-President (Finance)  
The Island Telephone Company Limited  
Charlottetown, P.E.I.

### John J. Howatt

President  
Darlington Farms Ltd.  
Darlington, P.E.I.

### William Herbert C. Leavitt

President  
The Leavitt's Maple Tree Craft  
Alberton, P.E.I.

### \*Horace R. MacFarlane

Vice-President  
The Prince Edward Island Bag  
Company, Limited  
Summerside, P.E.I.

### \*Percy J. Smith

Vice-President  
Great Eastern Corporation Ltd.  
Halifax, N.S.

\*Member Executive Committee

## OFFICERS

### A. Gordon Archibald

Chairman of the Board

### Ivan E. H. Duvar

President

### Walter C. Auld

Executive Vice-President

### Edward J. Hicks

Vice-President (Finance)

### Donald R. Livingstone

General Manager

### David S. Inkpen

Comptroller

### Donald B. Quinn

Secretary-Treasurer

### James L. Cameron

Assistant Secretary &  
Staff Supervisor Operations

## OPERATIONS

### Mrs. K. M. Frizzell

Operator Services Manager

### S. L. Godfrey

Plant Supervisor — Installation & Repair

### A. E. Holland

Plant Supervisor  
Trunks & Switching

### Raymond Livingstone

Plant Supervisor-Construction  
and Buildings, Vehicles and Supplies

### D. W. McLane

Commercial Manager

### P. A. Trainor

Engineering Supervisor —  
Outside Plant





*can corp*

THE ISLAND TELEPHONE COMPANY LIMITED

# Six Month Report

TO JUNE 30th 1975



## THE ISLAND TELEPHONE COMPANY LIMITED

### To the Shareholders:

Compared to the first six months of 1974, this year's first half service results show a gain in long distance calling volumes of 5.7% and telephones in service of 7.0%. Comparative rate of gain in additional telephones, however, was down 18.3% to a net growth of 1,958 for the period. (See box, right).

For the first six months, rate of return on average invested capital rose to 8.66%, compared to 8.4% for the same period a year ago. Rate of return on average common equity, however, dropped to 9.16%, compared to 9.73% a year ago. Earnings per average common share for the period were 51 cents compared to 55 cents a year ago.

At the Board of Directors meeting following the Annual General Shareholders' meeting May 28, Ivan E. H. Duvar, a Director of the Company and Assistant to the President, was appointed President. Walter C. Auld, Vice President and also a Director, was appointed Executive Vice President. E. J. Hicks, a Director, was appointed Vice President (Finance) and Donald R. Livingstone was reappointed General Manager. Donald B. Quinn was appointed Secretary-Treasurer.

Following its meeting on July 22, the Board declared a quarterly dividend of 20 cents payable September 15, an increase of three and three quarter cents over the last quarterly dividend; the dividend will be paid to shareholders of record as at August 29.

August 4, 1975  
Charlottetown, P.E.I.

Chairman of the Board

### SIX MONTH GROWTH

(compared to same period last year)

#### LONG DISTANCE CALLS

1,729,492 — *up* 5.7%

#### SALARIES AND WAGES

1,323,972 — *up* 21.6%

#### TELEPHONE GAIN

1,958 — *down* 18.3%

#### TELEPHONES IN SERVICE — JUNE 30

47,824 — *up* 7.0%

#### EMPLOYEES — JUNE 30

330 — *up* 7.8%



THE ISLAND TELEPHONE COMPANY LIMITED

*Condensed  
Financial Position  
Statement*

	As at June 30	
	1975*	1974*
	\$	\$
Telephone plant	39,094,178	30,525,342
Accumulated depreciation	7,761,941	6,666,633
Investments	72,071	72,071
Current assets	1,313,257	1,075,431
Deferred charges	331,196	314,428
Shareholders' equity — Preference	5,050,000	5,050,000
— Common	6,345,368	6,301,687
Long term debt — First mortgage bonds	13,250,000	9,750,000
— Bank and other notes	3,870,000	420,000
Current liabilities	1,204,274	1,111,455
Deferred Credits	3,329,119	2,687,497

## *Interim Income Statement*

	Three Months Ended June 30		Six Months Ended June 30	
	1975*	1974*	1975*	1974*
Operating revenues	\$ 2,355,359	\$ 1,909,553	\$ 4,535,173	\$ 3,642,890
Operating expenses and other taxes (Note 1)	1,623,902	1,272,591	3,183,871	2,508,207
Other income	731,457	636,962	1,351,302	1,134,683
	73,913	25,402	131,577	45,329
Income before interest and income taxes	805,370	662,364	1,482,879	1,180,012
Interest	355,486	232,787	676,379	442,980
	449,884	429,577	806,500	737,032
Income taxes (Note 2)	185,096	195,078	332,794	334,324
Net income for period	264,788	234,499	473,706	402,708
Earnings per average common share	\$ .30	\$ .33	\$ .51	\$ .55
Average number of common shares outstanding	562,092	553,608	562,092	553,608
(Note 1) Includes depreciation of	\$ 501,349	\$ 420,027	\$ 990,070	\$ 827,421
(Note 2) Consists of: Income taxes payable	\$ 40,538	\$ 80,413	\$ 42,958	\$ 107,665
Income taxes deferred	\$ 144,558	\$ 114,665	\$ 289,836	\$ 226,659

## **Statement of Changes in Financial Position**

Six Months Ended June 30		
SOURCE OF FUNDS:	1975*	1974*
Internal —	\$	\$
Operating revenues and other income	4,666,750	3,688,219
Less charges requiring working capital	3,134,053	2,293,574
From operations	1,532,697	1,394,645
Deferred income taxes, prior years	—	6,820
Other	100,920	22,735
Total internal	1,633,617	1,424,200
External —		
9.25% preference stock	—	2,000,000
First mortgage bonds	3,500,000	—
Bank and other notes	3,870,000	420,000
Employees' stock savings plan	24,358	25,084
Decrease in working capital	—	39,432
Total external	7,394,358	2,484,516
Total source of funds	9,027,975	3,908,716
APPLICATION OF FUNDS:		
Repayment of bank and other notes	2,973,000	480,000
Dividends	368,689	279,885
Increase in materials inventory	556,935	180,910
Other	117,456	120,724
Increase in working capital	1,302,155	—
Total application of funds (other than construction)	5,318,235	1,061,519
Total funds provided for construction	3,709,740	2,847,197
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	4,053,544	3,113,290
Cost of removing old plant	42,713	30,676
Construction program expenditures	4,096,257	3,143,966
Less charges not requiring working capital		
— Interest, pensions, and expenses credited to income	178,854	79,282
— Salvage	196,098	208,259
— Other	11,565	9,228
386,517	296,769	
Total funds used for construction	3,709,740	2,847,197

AR16